

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Traverse City Garfield Township Recreational Authority		County Grand Traverse
Audit Date June 30, 2005	Opinion Date October 21, 2005	Date Accountant Report Submitted to State: December 30, 2005		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

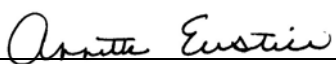
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON ANNETTE EUSTICE, CPA, CGFM			
Street Address 250 EAST FRONT STREET	City Traverse City	State MI	Zip 49684
Accountant Signature 			

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Traverse City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2005**

**CITY OF TRAVERSE CITY
AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

INDEPENDENT AUDITORS' REPORT

October 21, 2005

Board of Directors
City of Traverse City and Charter
Township of Garfield

We have audited the accompanying financial statements of the governmental activities and each major fund of the *City of Traverse City and Charter Township of Garfield Recreational Authority* (the "Authority"), as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2005, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3-7 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The individual major fund budgetary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in the relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Management's Discussion and Analysis

As management of the City of Traverse City and Charter Township of Garfield Recreational Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005. Since this is the first year of operations only results from the fiscal year ended June 30, 2005 are presented. In the future, management's discussion and analysis will be presented on a comparative basis. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

GASB 34 financial statement presentation

This year's financial statements and accompanying notes follow the direction of the Governmental Accounting Standards Board (GASB) from their Statement No. 34. GASB is charged with developing "generally accepted accounting principles" (GAAP) for governmental entities and is the ultimate authority on GAAP for state and local governments.

Other highlights:

1. The Authority began to implement the plans approved by the communities of Traverse City and Garfield Township. The public approved the millage request for operational and debt service in November of 2004 which authorized the creation of the Authority.
2. Purchased the Smith Barney and Olson properties and began demolition on the Smith Barney property.
3. Bonds in the amount of \$6,650,000 were issued.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's financial statements comprise three components:

1. government-wide statements
2. fund financial statements, and
3. notes to the financial statements.

Government-wide Statements

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, amortization expense associated with other assets).

Both of the financial statements distinguish the function of the Authority, which is principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Authority include the acquisition, construction, operation, maintenance, or improvement of public recreation centers, public parks, and public conference centers as may be acquired by the Authority or as may be transferred to it by a participating municipality.

The government-wide financial statements include only the Authority itself (known as the *primary government*).

The Authority has no legally separate component units for which the Authority is financially accountable.

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Authority is accounted for in governmental funds (General, Debt Service and Construction Funds).

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*.

The Authority also maintains two other governmental funds. The Debt Service Fund is used to account for the accumulation of resources and the payment of general long-term debt principal, interest and related costs. The Construction Bond Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment. Information for each fund is presented in the balance sheet and in the statement of revenues, expenditures, and changes in fund balances for the Authority. Each fund is a major fund for financial reporting purposes as defined by GASB Statement #34.

The Authority adopts an annual appropriated budget for its funds. A budgetary comparison statement or schedules have been provided herein to demonstrate compliance with that budget.

The governmental fund financial statements can be found on pages 10 through 14 of this report.

The Authority does not maintain proprietary or fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Authority's financial statements. The notes to the financial statements can be found on pages 16 through 20 of this report.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The Authority's Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by approximately \$245,000 at the close of the fiscal year, June 30, 2005.

All of the net assets for the Authority are unrestricted and available for the Authority activity. The Authority uses capital assets for the acquisition, construction, operation, maintenance, or improvement of public recreation centers, public parks, and public conference centers as may be acquired by the Authority or as may be transferred to it by a participating municipality.

City of Traverse City and Charter Township of Garfield Recreational Authority

	<u>June 30, 2005</u>
Governmental Activities	
Current and other assets	\$ 1,444,238
Capital assets	<u>5,515,600</u>
Total assets	6,959,838
Accrued expenses	65,007
Long-term liabilities outstanding	<u>6,650,000</u>
Total liabilities	6,715,007
Net assets	
Unrestricted	<u>244,831</u>
Total net assets	<u>\$ 244,831</u>

City of Traverse City and Charter Township of Garfield Recreational Authority

	<u>June 30,</u> <u>2005</u>
Governmental Activities	
Revenue	
Program revenue	
Charges for services	\$ 7,808
General revenue	
Property taxes	460,318
Interest earned	<u>27,367</u>
Total revenue	<u>495,493</u>
Expenses	
Recreation and culture	98,978
Interest expense	<u>151,684</u>
Total expenses	<u>250,662</u>
Increase in net assets	244,831
Net assets – beginning of year	<u>-</u>
Net assets – end of year	<u><u>\$ 244,831</u></u>

Governmental activities

Revenues by Source

Because the Authority receives the bulk of its revenue from property taxes of approximately \$460,000, it held a strong cash position though out the year and it was able to cover its operation cost throughout the year. Its other revenue, of approximately \$35,000, was from charges for services and investment income.

The revenue resources are constrained for the operation, maintenance and capital needs of the Authority and may not be utilized for other purposes as defined by the resource documentation.

Expenses

In 2005, total expenses approximated \$251,000. The bulk of the expenses were related to interest on bond obligations and administrative service fees paid to the City of Traverse City.

Financial Analysis of the Authority's Fund

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Authority's *general fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Authority. At the end of the fiscal year, the total fund balance was \$81,828, which was unreserved and undesignated. The fund balance was higher than expected because expenditures expected did not occur until after fiscal year end.

Capital Asset and Debt Administration

Capital assets are strictly comprised of land at June 30, 2005 and amounted to \$5,515,600. Additional information on the Authority's capital assets can be found in Note 1 on page 17 of this report.

Long-term debt consisted of a bond obligation for the purchase of various parcels of land; as of fiscal year end there was an outstanding balance of \$6,650,000. Additional information can be found in Note 3 on page 18 through 19 of this report.

Economic Factors and Next Year's Budgets and Rates

The next year continues the strong fiscal position of the Authority. Property tax rates are expected to be unchanged and the tax revenue is expected to cover operation costs.

Requests for Information

This financial report is designed to provide a general overview of Authority finances for all those with an interest in the finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Richard I. Lewis, City Manager, City of Traverse City and Charter Township of Garfield Recreational Authority, 400 Boardman Avenue, Traverse City, MI 49684.

FINANCIAL STATEMENTS

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Statement of Net Assets June 30, 2005

	Governmental Activities
Assets	
Cash	\$ 1,378,404
Unamortized bond costs	51,553
Unamortized bond discount	14,281
Land	5,515,600
Total assets	6,959,838
Liabilities	
Accrued expenses	65,007
Non-current liabilities	
Due within one year	105,000
Due in more than one year	6,545,000
Total liabilities	6,715,007
Net Assets	
Investment in capital assets, net of related debt	-
Unrestricted	244,831
Total net assets - unrestricted	\$ 244,831

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Activities
For the Year Ended June 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Charges for Services</u>	<u>Net (Expense) Revenue</u>
Culture and recreation	\$ 98,978	\$ 7,808	\$ (91,170)
Interest on long-term debt	151,684	-	(151,684)
	<u>\$ 250,662</u>	<u>\$ 7,808</u>	\$ (242,854)
General revenues			
Property taxes			460,318
Unrestricted investment earnings			27,367
			<u>487,685</u>
Change in net assets			244,831
Net assets, beginning of year			-
Net assets, end of year			<u><u>\$ 244,831</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Balance Sheet Governmental Funds June 30, 2005

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Construction Bond Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash (equals total assets and undesignated fund balances)	\$ 81,828	\$ 251,685	\$ 1,044,891	\$ 1,378,404

Continued.....

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Balance Sheet
Governmental Funds
June 30, 2005**

**Reconciliation of fund balances on the balance sheet for governmental funds to
net assets of governmental activities on the statement of net assets**

Fund balances	\$ 1,378,404
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Amounts reported for governmental activities in the statement of net assets
are different because

Capital assets used in governmental activities are not financial resources, and therefore
not reported in the funds.

Add: land	5,515,600
Add: unamortized assets	67,812
Deduct: accumulated amortization	(1,978)

Certain liabilities, such as bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct: bonds payable	(6,650,000)
Deduct: accrued interest on non-current liabilities	<u>(65,007)</u>

Net assets of governmental activities	<u><u>\$ 244,831</u></u>
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Concluded

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds**

For the year ended June 30, 2005

	General Fund	Debt Service Fund	Construction Bond Fund	Totals Governmental Funds
Revenues				
Property taxes	\$ 123,366	\$ 336,952	\$ -	\$ 460,318
Interest	706	1,446	25,215	27,367
Other	3,555	-	4,253	7,808
Total revenues	127,627	338,398	29,468	495,493
Expenditures				
Current				
Professional services	43,100	-	51,083	94,183
Office supplies and utilities	2,699	36	82	2,817
Capital outlay	-	-	5,515,600	5,515,600
Debt service				
Bond issuance costs	-	-	52,014	52,014
Interest and fiscal charges	-	86,677	-	86,677
Total expenditures	45,799	86,713	5,618,779	5,751,291
Revenues over (under) expenditures	81,828	251,685	(5,589,311)	(5,255,798)
Other financing (uses) sources				
Bond discount	-	-	(15,798)	(15,798)
Proceeds from bond issuance	-	-	6,650,000	6,650,000
Total other financing sources	-	-	6,634,202	6,634,202
Net change in fund balance	81,828	251,685	1,044,891	1,378,404
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	\$ 81,828	\$ 251,685	\$ 1,044,891	\$ 1,378,404

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005**

**Reconciliation of the statement of revenues, expenditures and change in
fund balances - governmental funds to the statement of activities**

Net change in fund balances	\$ 1,378,404
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives.

Add: land	5,515,600
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Governmental funds report bond related costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as amortization expense.

Add: bond issuance costs	52,014
Deduct: accumulated amortization	(1,978)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases non-current liabilities in the statement of net assets.

Deduct: accrued interest on non-current liabilities	(65,007)
Deduct: debt proceeds received for non-current liabilities	<u>(6,634,202)</u>

Change in net assets	<u><u>\$ 244,831</u></u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD RECREATIONAL AUTHORITY

Statement of Revenues, Expenditures and Changes in Fund Balance Budget to Actual General Fund

For the year ended June 30, 2005

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 125,000	\$ 125,000	\$ 123,366	\$ (1,634)
Reimbursements	-	-	706	706
Interest	-	-	3,555	3,555
Total revenues	125,000	125,000	127,627	2,627
Expenditures				
Professional services	26,650	26,650	43,100	16,450
Office supplies and utilities	32,950	32,950	2,699	(30,251)
Capital outlay	43,000	43,000	-	(43,000)
Total expenditures	102,600	102,600	45,799	(56,801)
Revenues over expenditures	22,400	22,400	81,828	59,428
Fund balances, beginning of year	-	-	-	-
Fund balance, end of year	\$ 22,400	\$ 22,400	\$ 81,828	\$ 59,428

The accompanying notes are an integral part of these financial statements.

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The City of Traverse City and Charter Township of Garfield Recreational Authority (the "Authority") is incorporated for the purpose of the acquisition, construction, operation, maintenance, or improvement of public recreation centers, public parks, and public conference centers as may be acquired by the Authority or as may be transferred to it by a participating municipality. The Authority may donate, sell, lease or transfer any such facilities so acquired, only after the participating municipalities have given authorization.

Government-wide and Fund Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation – The government-wide financial information is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the years for which they are levied.

Governmental fund financial information is reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental funds:

The *General Fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

The *Debt Service Fund* is used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

The *Construction Bond Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities or equipment.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

Land – Land is recorded at historical cost and is reported in the governmental activities columns in the government-wide financial statements. The costs of normal maintenance and repairs that do not add to the value of the asset are not capitalized. Since land is not a depreciable asset no useful lives have been assigned. Land was acquired during the fiscal year and amounted to \$5,515,600 at June 30, 2005.

Long-term obligations – In the government-wide financial statements long-term debt is reported as liabilities in the governmental activities statement of net assets. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bond premiums and issuance costs are reported as other assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs, during the current period. The face amount of debt issued, net of premium, is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

Budgetary Information – The General Fund, Debt Service Fund and Construction Bond Fund are under formal budgetary control and their budgets are prepared on the same modified accrual basis used to reflect actual results. The Authority follows the process below in establishing the budgetary data reflected in the financial statements:

- The management team prepares and submits a proposed budget to the Authority's Board of Directors for review and consideration. The Authority submits the proposed budget to the participating municipalities for review and comment at their respective public meetings. Public hearings are held to obtain taxpayer comments by the Authority. The process is completed and the budget is legally adopted through the Board of Directors resolution prior to the beginning of the budgetary year for the Authority's funds.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the Board of Directors during the year. Individual amendments were not material in relation to the original appropriations.

2. CASH

Michigan Compiled Laws, Section 129.91 authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority's cash is comprised of bank deposits held with a financial institution and had a balance of \$1,378,404 at June 30, 2005.

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$1,378,470. Of that amount, \$100,000 was covered by federal depository insurance and the remainder of \$1,278,470 was uninsured and uncollateralized.

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

3. NON-CURRENT LIABILITIES

The following is a summary of bond debt transactions of the Authority for the year ended June 30, 2005:

	<u>Balance</u>			<u>Balance</u>	<u>Due</u>
	<u>07/01/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/05</u>	<u>Within</u>
					<u>One Year</u>
2004 general obligation recreation bond, interest rates ranging from 2.50% - 4.45%, matures 2024.	\$	-	\$ 6,650,000	\$	-
				\$ 6,650,000	\$ 105,000

The following is a summary of bond debt transactions of the Authority for the year ended June 30, 2005:

<u>Fiscal</u>		
<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 105,000	\$ 258,718
2007	80,000	256,405
2008	100,000	254,030
2009	120,000	251,005
2010	150,000	247,105
2011-15	1,065,000	1,143,794
2016-20	1,910,000	873,050
2021-24	<u>3,120,000</u>	<u>366,606</u>
	<u>\$ 6,650,000</u>	<u>\$ 3,650,713</u>

4. PROPERTY TAXES

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City and Garfield Township as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Grand Traverse County. Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50 percent of current market value. Real and personal property in the Authority for the 2004 levy were assessed and equalized at \$1,289,066,372, representing 50 percent of estimated current market value. The Authority's debt and general operating tax rate for fiscal year 2004-05 was 0.27 and .10 mills, respectively.

**CITY OF TRAVERSE CITY AND
CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

Notes to Financial Statements

5. RELATED PARTY TRANSACTIONS

The City of Traverse City (the “City”), a related party (by virtue of common board members and management), provides management services on behalf of the Authority. These services include maintaining financial records and reporting. In return for these services, the City received fees from the Authority in the amount of \$10,828 during the year ended June 30, 2005.

6. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Authority carries commercial insurance with minimal deductibles. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage.

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**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Debt Service Fund**

For the year ended June 30, 2005

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Property taxes	\$ 331,225	\$ 331,225	\$ 336,952	\$ 5,727
Interest	-	-	1,446	1,446
Total revenues	331,225	331,225	338,398	7,173
Expenditures				
Office supplies and utilities	-	-	36	36
Interest expense	91,388	91,388	86,677	(4,711)
Total expenditures	91,388	91,388	86,713	(4,675)
Revenues over expenditures	239,837	239,837	251,685	11,848
Fund balances, beginning of year	-	-	-	-
Fund balance, end of year	\$ 239,837	\$ 239,837	\$ 251,685	\$ 11,848

**CITY OF TRAVERSE CITY AND CHARTER TOWNSHIP OF GARFIELD
RECREATIONAL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual
Construction Bond Fund**

For the year ended June 30, 2005

	Original Budget	Amended Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Interest	\$ 10,000	\$ 10,000	\$ 25,215	\$ 15,215
Other	-	-	4,253	4,253
Total revenues	10,000	10,000	29,468	19,468
Expenditures				
Professional services	195,000	195,000	103,097	(91,903)
Office supplies and utilities	-	-	82	82
Capital outlay	5,602,000	5,602,000	5,515,600	(86,400)
Total expenditures	5,797,000	5,797,000	5,618,779	(178,221)
Revenues over (under) expenditures	(5,787,000)	(5,787,000)	(5,589,311)	197,689
Other financing (uses) sources				
Bond discount	-	-	(15,798)	(15,798)
Proceeds from bond issuance	6,650,000	6,650,000	6,650,000	-
Total financing sources	6,650,000	6,650,000	6,634,202	(15,798)
Net change in fund balances	863,000	863,000	1,044,891	181,891
Fund balances, beginning of year	-	-	-	-
Fund balance, end of year	\$ 863,000	\$ 863,000	\$ 1,044,891	\$ 181,891